

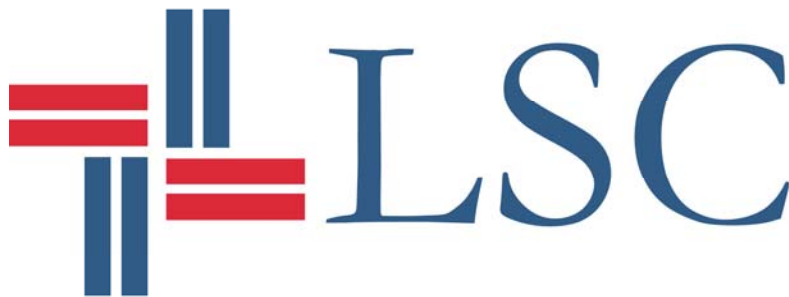
LEGAL SERVICES CORPORATION

October 1, 2009 – September 30, 2012

HERBERT S. GARTEN

LOAN REPAYMENT ASSISTANCE PROGRAM

Program Description



October 2009

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I. Overview

In 2005 the Legal Services Corporation (LSC) established a Pilot Loan Repayment Assistance Program (LRAP) to obtain the data necessary to determine the extent to which an LSC LRAP would help LSC grantees recruit and retain qualified attorney staff.¹ Attorneys, who are selected to participate in the LSC LRAP, receive loans for three (3) years as long as they remain eligible for the program and funding is available. The description of the LSC LRAP contained in this paper applies to new applications filed on or after October 1, 2009.

LSC will make loans of \$5600 to a limited number of attorneys eligible for the program. The participating attorney (PA) must use the LSC LRAP assistance to pay eligible law school loans, plus accrued interest. The PA must also meet all terms and conditions of the LSC LRAP. The LRAP debt will be forgiven by LSC at the end of each year. *Applicants must commit to remain with the grantee for three years if they participate in the LSC LRAP.*

A PA's participation in the first year of the LSC LRAP is based on the initial application. To participate in the program's second and third years, a PA must submit information demonstrating continued eligibility. If otherwise eligible, a PA will remain eligible in the second and third years even if the PA's salary exceeds the LSC LRAP income limit. However, the PA must recertify in the second and third years of participation that the he or she is otherwise financially eligible for continued LSC LRAP assistance. PA awards in the second and third years of the program are contingent upon funds being available.

All PA applicants, including those not receiving LSC LRAP assistance, must agree to participate in any evaluation of the LSC LRAP. Evaluation activities may include the completion of surveys and participation in interviews.

II. Program Rules for Participating Attorneys

A. Requirements for Participating Attorneys

Eligibility requirements for the 2009-2012 LSC LRAP include the following:

- A PA must submit a completed LSC LRAP application and all supporting documents by the appointed deadline.
- A PA must have no more than five years (60 months) experience with the legal services program that employs the PA at the time of application.²

¹ In January 2009, the LSC Board of Directors renamed the Pilot Loan Repayment Assistance Program in honor of Herbert S. Garten, a LSC board member and longtime champion of equal justice in his home state of Maryland.

² Newly recruited attorneys, who were not told about the possibility of LSC LRAP assistance during the hiring process, are eligible to apply for the LSC LRAP.

- A PA must be a full-time employee of an LSC funded legal services program (that is, work at least 35 hours per week or its equivalent per the program's pay period.)
- A PA must have a total outstanding debt of at least \$50,000 on eligible law school educational loans, as described in Section B below.
- A PA may have a total annual income from all sources that is no more than \$55,000 and a total net worth of no more than \$35,000.³ Attorneys working for Alaska Legal Services Corporation are eligible for the LSC LRAP if their total annual income from all sources is no more than \$61,300. Attorneys working for Alaska Legal Services may not have a net worth in excess of \$35,000.
- A PA may not have previously received 36 months of LSC LRAP loans or defaulted on a previous LSC LRAP loan.
- A PA is not required to first apply to, and maximize participation in, any other loan repayment assistance program for which the PA is eligible. The receipt of other LRAP assistance will not decrease the amount of the LSC loan. However, LSC will seek information on the applicant's participation in other LRAPs for research purposes aimed at further improving the LSC LRAP.
- A PA must apply for the LSC LRAP by completing an Application Form, submitting all other required documentation and certification forms, and, if accepted, by signing a Promissory Note.
- A PA must provide loan data according to the instructions on the Application Form.
- A PA must provide a statement of good standing from PA's executive director.
- If a PA receives LSC LRAP assistance, a PA is expected to complete 3 years of employment with the participating program.

B. Eligible and Ineligible Loans

1. Eligible Loans

The LSC LRAP will provide assistance, as approved by LSC, toward the payment of the following loans incurred for law school expenses, on the condition that they can be verified through a lending institution:

- Federal Stafford Loans (Subsidized/Unsubsidized)
- Supplemental Loans for Students (SLS)
- Federal Perkins Loans

³ Income sources include but are not limited to the PA's wages and salaries, interest, dividends, realized capital gains, gifts and trust income. Net worth consists of the sum of the value of financial assets (e.g. cash, value of checking and savings accounts, stocks, bonds) and non-financial assets (e.g., equity in real estate) minus any debts (e.g., mortgage loans, student loans, consumer credit). Equity in the home in which the PA lives is not included in the net worth calculation.

- Law Access Loans (LAL)
- Law Student Loans (LSL)
- Law school-based loans
- Other educational (e.g., Nellie Mae, Sallie Mae, TERI) loans used to pay for law school
- Bar exam/Bar study loans

2. Ineligible Loans

The LSC LRAP will not provide assistance toward payment of the following loans:

- Non-law school educational loans
- Non-educational loans
- Educational or non-educational loans from family members
- Educational or non-educational commingled loans with spouses or partners or parents
- Credit card debt loans

PAs are responsible for any tax, legal consequences, or legal implications if they use LSC LRAP funds to pay for any of these ineligible loans or debts. In addition, the PA will be in default of the provisions of the Promissory Note and will be required to repay LSC the principal and interest pursuant to the terms of the Promissory Note.

C. Loan and Financial Information Required from PAs

To be eligible for LRAP assistance, attorneys or law graduates must have law school educational debt with a total outstanding debt service on eligible educational loans of at least \$50,000, and must meet the other requirements of the LSC LRAP. A PA will be required to provide lender documentation of each loan. *If law school debt has been consolidated with undergraduate and/or graduate school debt, the PA will be asked to separate out the law school debt.* The PA Application Form and Instructions describes these requirements in detail. A PA must also certify compliance with the income and asset eligibility criteria.

A PA must notify the LSC LRAP Coordinator in writing of any errors, omissions or significant changes in the application information or other information provided to LSC within 30 days of learning of such errors, omissions, or changes. Failure to provide this information may affect the PA's eligibility for the program.

Once a PA is determined to be financially eligible for the program, any change in the PA's income or assets will not affect the PA's future eligibility for the program.

D. Use of the LSC LRAP Funds

All LSC LRAP funds received by PAs must be applied to eligible educational loan payments.

E. LSC LRAP Loan Payment, Loan Defaults, and Loan Forgiveness

LSC's loan payment is made in an annual check to PAs. Since law school loans are typically due in monthly installments, PAs are expected to retain the LSC loan payment and use the LSC funds

to make their monthly payments on eligible law school loans. See Section B. 1 above. In the event that LSC's loan exceeds the PA's monthly payments in a particular year of the LSC LRAP, the PA will be required to apply that excess to the payment of his or her other remaining eligible law school loan debt, as defined in Section B. 1 above.

PAs may apply the LSC LRAP loan to make a lump sum payment to pay down eligible debt principal. Under no circumstances may PAs use LSC's loan assistance funds to defray living expenses or any debt other than eligible law school loans.

Loans are mailed to the PA's *home* address after LSC receives from the PA a signed Promissory Note. The first year's annual payment will cover the period October 1, 2009, through September 30, 2010. The employer is not involved in this loan relationship, other than to verify that the PA remains in good standing in the participating grantee program. The amount of this loan will be \$5600 for all PA's found eligible for the program.

Interest on the LSC loan will accrue at the rate of 6 percent per annum. This loan will be forgiven upon the PA's completion of employment with the program during the loan term. If the PA voluntarily quits employment without good cause or is terminated with cause during the year, the entire amount of the loan plus interest for the current year will become due and owing.⁴

In the case of a PA who leaves the program for good cause before the end of the year, LSC will cancel a portion of the indebtedness (total loan amount for that year plus interest accrued to date) corresponding to the proportion of the year the PA was employed by the program. The entire remaining outstanding balance will become due and payable. Any remaining amount not offset or forgiven must be repaid promptly by the PA.

F. Submitting a LSC LRAP Application

The LSC LRAP application process is an electronic process. Please read the Instructions for Completing the LSC LRAP Application/Certification form before completing the form.

A completed application consists of:

- The electronic submittal of the Application/Certification form with all appropriate boxes checked (failure to check all appropriate boxes will result in ineligibility for the program);
- Loan documentation; and
- An Executive Director Certification form.

G. Renewal of the LSC LRAP In Year Two and Year Three

PAs who have completed their first year will be required to renew participation in the LSC LRAP for the second-year and third-year terms. They will be required to complete a Renewal Form, submit necessary certifications, and submit documentation of law school loans. See Section C. above.

⁴ "Good cause" could be illness of the PA or members of the PA's immediate family. Taking higher paying employment is not good cause. Employment by another LSC grantee will not cause termination of the agreement as long as the PA remains otherwise eligible. LSC has the sole discretion to determine what is "good cause."

III. Tax Consequences of Receiving LSC LRAP Assistance

The LSC LRAP is designed to take advantage of the provisions of section 108(f) of the Internal Revenue Code. In consultation with legal counsel, LSC believes it has structured the LSC LRAP so that the loan amounts forgiven by LSC when a PA completes each year of the LRAP are not considered taxable income to the PA, and thus do not have to be reported as such. However, there is no authoritative legal guidance available to determine with certainty the proper tax treatment of these financial benefits. LSC does not give tax advice. Each PA remains responsible for federal and state income tax consequences on individual returns.

PAs have the option to treat the forgiveness of their LRAP as taxable income. PAs are encouraged to seek independent legal advice for any questions about their particular tax situations.

